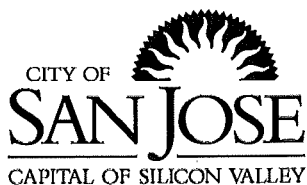


# SUPPLEMENTAL

COUNCIL AGENDA: 08-23-2011

ITEM: 2.7



## Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** William F. Sherry, A.A.E

**SUBJECT:** Agreements for Air Service  
Development and Airport  
Marketing and Communications  
Consulting Services

**DATE:** August 11, 2011

Approved

Date

8/11/11

**COUNCIL DISTRICT:** Citywide

### **SUPPLEMENTAL**

#### **REASON FOR SUPPLEMENTAL**

At its meeting on June 21, 2011, the Council deferred action on recommendations to retain marketing and communications consulting services supporting Mineta San José International Airport until August 23, 2011. Council directed the Administration to prepare a plan to focus consultant services on air service development, identify how funding resources will be allocated to the consultants' scope of work, and present the plan to Council and to the Ad Hoc Committee on Airport Competitiveness in August. This supplemental memo provides information in response to this direction.

#### **RECOMMENDATION**

In June 2011 staff had recommended that the proposed consultant contracts would be for two years, with the option for two one-year extensions under the delegated authority of the City Manager. Based on feedback from the Mayor's Office since this matter was deferred in June, staff has revised its recommendation as follows:

- (a) Adopt a resolution authorizing the City Manager to negotiate and execute master consultant agreements with Hoffman|Lewis, Inc. and with Barnestorming Advertising to provide marketing and communications support services to Mineta San José International Airport for two-year terms beginning September 1, 2011, through August 31, 2013, in a total amount for each agreement not to exceed \$520,000, and the total expenditures for both agreements together not to exceed \$520,000; and

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- (b) Direct staff to bring back a summary report of the activities and accomplishments related to these agreements to the Council in spring 2013, prior to Council's approval of exercising the first of up to two one-year options to extend the terms of each agreement through August 31, 2015, in amounts not to exceed a total of \$260,000 per year for each agreement, for a total four-year contract amount for each agreement not to exceed \$1,040,000, and the total expenditures for both agreements together not to exceed \$1,040,000, subject to the annual appropriation of funds by the Council.

**BACKGROUND**

Mineta San José International Airport (SJC) is a self-supporting enterprise and depends entirely on its airline partners, customers, and tenants for all its revenue, with no support from the General Fund. Airline activity drives airport revenues, and airlines themselves directly account for about 40%. SJC also faces direct competition from all airports in the nation for air service, as well as those in the Bay Area, that are generally investing significantly more resources toward marketing compared to SJC. San Francisco International, for example, recently solicited airport marketing consulting services totaling \$11,000,000 over the next seven years.

In addition to the SJC's competitiveness strategy to keep its costs to airlines low, last summer the Airport developed a new air service recruitment strategy in collaboration with the Mayor's Office and the Office of Economic Development. Over the past year the Silicon Valley Leadership Group and the San Jose-Silicon Valley Chamber of Commerce also have become actively engaged, and regional business leaders are now participating in joint efforts to increase air service.

These efforts are starting to have a positive impact. In the last quarter of FY 2010-11, airlines added 50 flights per week at SJC, and dropped 15, for a net increase of approximately 35 flights per week. Overall, daily flights in August this year have increased to 128 compared to 124 one year ago and the number of available seats is up 3.8%. SJC is seeing slow and steady growth in passenger traffic over the past year and flights are very full. These gains are welcome, but successful air service development will require a long-term commitment and investment to attract carriers and increase routes.

The Airport has routinely retained consultant services to provide creative expertise and quality that have assisted staff with a wide range of marketing communications activities, including airport promotion, air service development, concessions marketing, customer services, and community relations. The proposed consultant contracts are consistent with the level and type of services used by the Airport since at least 2000. During the Airport's modernization program over the past several years, communications successfully focused on public information and customer service issues related to the New Airport and construction.

With the completion of the modernization program this year, Airport marketing communications activities are being refocused. However, Airport staffing for air service development, customer service, community relations, and public information has been reduced by two-thirds since 2008

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as a result of severe reductions of SJC budgets. Consultant marketing services have therefore helped provide capacity and capabilities needed for Airport communications in all priority areas.

Finally, under the terms of the Airport's Master Concession Agreements, the concessionaires are required to dedicate one-half percent of concession sales to a concession marketing fund. In the coming year the estimated amount that will be collected for concession marketing activities aimed at customers inside the terminals is approximately \$75,000.

**ANALYSIS**

The proposed marketing communications consultant contracts totaling \$260,000 per year (\$185,000 for SJC services and \$75,000 for concession marketing) will be allocated to support the five priorities listed below. Although the top priority is air service recruitment, Airport communications also will continue to focus on customer services, public information, and concessions marketing.

These amounts do not include the purchase of Airport advertising or printing, but rather cover the planning, design and creative services, and implementation for promotional campaigns and materials. With the growing use of new media technology, social media, and mobile communications in recent years, the field of marketing communications also has greatly changed. The Airport will use the consultants to provide guidance and support for effectively using both new media and traditional media.

These cost allocations are estimates at this time rather than specific commitments and will change in response to opportunities and new conditions over time. For this reason staff will continue to manage the consultants' contracts and adjust plans and activities using the appropriate delegated authority and flexibility based on changing circumstances.

***Priority 1: Assist development of Airport overall marketing communications plans, with emphasis on air service***

Estimated allocation: \$15,000

Completion date: September 30, 2011

An initial task for the consultants is helping Airport staff to prepare a framework to guide marketing and communications activities and use of resources, including specific communications methods to support SJC's air service recruitment strategy.

***Priority 2: Support efforts to recruit air service serving Silicon Valley***

Estimated allocation: \$85,000

Recruiting airlines and flights currently is the highest priority for the Airport and effective communications support for the Airport's air service development strategy is critical for success.

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Direct communications with airline decision makers will continue by the Mayor and Council, business and community leaders, and Airport and Office of Economic Development staff. The consultants and Airport staff will develop and execute supporting marketing campaigns and materials.

- Creative services (e.g., graphic design and copywriting) to support implementation of air service recruitment strategy.
- Promotional campaign for Routes Air Service Forum in Berlin (October) and other air service forums.
- Campaigns to develop customer, business, and community engagement to support new flights, including social media promotions.

***Priority 3: Provide responsive customer service***

Estimated allocation: \$60,000

Good customer service and Airport amenities are necessary for maintaining and strengthening SJC's positive reputation for passengers and airlines, especially as the "newness" of the new airport fades.

- Creative support regarding airport amenities, customer service issues, and changes affecting passengers and tenants such as promotional signage, banners, terminal display screens, and social media promotions.
- Branding and launch support for a potential airport common use business lounge (anticipated in 2012).

***Priority 4: Provide timely and effective public information***

Estimated allocation: \$25,000

Information materials prepared for air service development and customer services have additional value for ongoing public information. Most material will be designed in digital or on-line formats rather than as printed documents to reduce production costs and to improve flexibility for updating and repurposing.

- Templates for e-newsletters and collateral material such as fact sheets.
- Refreshing the "look and feel" of Airport website and social media platforms.

***Priority 5: Increase concession sales per enplanement***

Estimated allocation: \$75,000

In collaboration with SJC master concessionaries, a variety of promotional activities are being planned to increase concession sales per enplanement. The consultants will work with Airport

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staff and the concessionaires to develop and implement marketing and promotional activities aimed at customers already inside the terminals.

- Concession promotions and merchandising for in-terminal advertising media
- Signage and banners
- Concourse entertainment
- Mobile media promotions
- Social media promotions

***Future contract extensions***

Staff had originally recommended that the proposed consultant contracts would be for two years, with the option for two one-year extensions under the delegated authority of the City Manager. The Mayor's Office suggested that any extensions be authorized by Council instead of the City Manager, and that a summary of activities and accomplishments related to these contracts be brought to Council at that time in spring 2013.

/s/

William F. Sherry, A.A.E.

Director of Aviation

For questions, please contact William F. Sherry, A.A.E., Director of Aviation, at (408) 392-3611.